



DEVELOPING A BUSINESS MODEL

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Entrepreneurship

Video Transcript

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[TEXT: Entrepreneurship
Developing a Business Model]

[TEXT: Learning Objectives]

1. What is a business model?
2. What does scalability mean?
3. What is the essence of a great pitch?]

[TEXT: Evan Burfield, Co -Founder, 1776]

Developing the business model for your startup.

There's going to be three learning objectives during this module.

First, what is a business model?

Second, what does scalability mean?

And third, what is the essence of a great pitch?

Fifteen years ago, investors expected startups to spend great amounts of time writing long business plans filled with forecasts that were unlikely to ever be true. Today, sophisticated investors expect startup founders to focus on developing a business model for their startup, ideally one that scales.

A business model is the collection of assumptions that must be true in order for your startup to generate a consistent profit. These assumptions include a precise description of the customers you will engage, the problem you will solve for those customers, the features of the solution to that problem, the messages and channels you will use to connect to those customers, and the economics around what and how you will charge for your solution — and what it will cost you to provide it.

A scalable business model for your startup is one that not only enables the business to generate a profit but one that is well-suited to grow rapidly — and ideally become more profitable as the business becomes large. Rather than assuming that you have all the answers about your scalable business model from the start, you, as a smart entrepreneur today begin with the idea that you have hypotheses that must be tested through actual interactions with customers. It doesn't matter what you think; it matters what you can validate through hard data derived from actual customer interactions.



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The Lean Startup Methodology — popularized by Steve Blank and Eric Ries — is one important way of going through this continuous process of experimentation and business model development.

A “lean startup” approach to building your business pairs an iterative, experimental approach to developing an in-depth understanding of your customers — and their needs and wants — with a fast, flexible approach to building your product. The idea is that you build as little of your product as possible, test it with real customers, then make quick tweaks and changes to the product, and repeat.

To communicate your scalable business model to potential investors and other audiences, you should maintain an up-to-date pitch or story you tell about your business. The physical manifestation of your pitch is a deck — usually 10 to 12 slides and no more — and as visual as you can make it.

More important than the physical deck, though, is really developing a great story to tell. After all, there's going to be a lot of moments when you have the opportunity to pitch someone, but won't happen to have your deck handy.

Every great story has a beginning, a middle and an end. The beginning is about setting the scene and introducing compelling characters to whom your audience can relate. The middle is about explaining a challenge that your main character faces. The end is about how your character resolves this problem in a satisfying way.

Your pitch should unfold the same way. You need to start by explaining to investors who the user of your solution is. The more vivid a picture you can paint, the better. You then need to explain the incredibly frustrating or expensive problem that your user faces. A combination of anecdotes or case studies — to make the problem seem real, with data to explain the size of the problem, is ideal. Finally, you need to end your pitch by showing how your solution solves this problem. And it's really important that you do this in the simplest terms possible. Finally, the epilogue to your story is explaining how you scale your business into a really big, interesting market.

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